UK AVIATION STRATEGY

Call for Evidence

Initial Response on behalf of:

HITRANS Regional Transport Partnership

Highlands and Islands Enterprise

Highlands and Islands Airports Limited

Date: October 2017

CONTENTS

EXECUTIVE SUMMARY

This response has been prepared on behalf of the following partners from the Highlands and Islands: Highlands and Islands Regional Transport Partnership (HITRANS); Highland and Islands Airports Limited (HIAL) and Highlands and Islands Enterprise (HIE). The three stakeholders have agreed to collaborate on a response intended to capture the key issues for this region and seek action from the UK Government to address the connectivity needs of this region to support sustainable economic growth. This concerns securing and somehow ringfencing slots into an expanded Heathrow for the most peripheral UK regions, particularly those areas that have slow or limiting transport alternatives to access a full range of international connections.

A range of suggestions related to this core aim are made in the conclusion of this submission. In brief these are:-

I. The Partners urge the DfT to set out a consistent rationale that sets out which airports should have access to international hub(s) beyond what the market might supply.

VI. The Partners consider that there is a strong case for Inverness (as the key centre for the Highlands and Islands) to be prioritised for access to the UK's main hub at Heathrow Airport when it expands and that this should have a suitable business frequency secured for the route (ideally to 3 rotations per day and a minimum of 2 rotations per day). In the short term before such expansion is achieved interim measures should be developed to maintain, protect and enhance the region's global connectivity. Connectivity is not just a function of direct destination links with the region but is also a function of capacity, frequency and onward connections at destination airports. The 2014 National Connectivity Taskforce Report[1] highlighted many of the issues relating to improving UK regional connectivity, that now become consciously recognised as a core justification for new runway capacity in the English south east.

VII. The Partners urge the DfT to update its guidelines for PSOs and specifically its Guidance on the Protection of Regional Air Access to London. This we would suggest should be reframed as Guidance on Support / Protection for Regional Air Connectivity. Funding, onward connectivity justifications and airport to airport as opposed to airport to city justifications are several cases in point. In our view needs evaluation criteria need to be developed to identify and address these basic connectivity requirement issues before one reaches the stage of hurried and pressured rescue, as happened in both the case of both the Newquay and Dundee PSOs.

1 http://www.nationalconnectivitytaskforce.co.uk/

1. BACKGROUND

1.1. **HITRANS** is one of seven Regional Transport Partnerships in Scotland which were established through the 2005 Transport (Scotland) Act. The Highlands and Islands Transport Partnership (HITRANS) is the statutory regional transport partnership covering Eilean Siar (Outer Hebrides), Orkney, Highland, Moray and most of the Argyll and Bute.

The Partnership has a range of powers, including those to:

- Require funding from its member councils.
- Give grants and loans in order to implement the regional transport strategy.
- Borrow money for specific capital expenditure.
- Participate in Community Planning.
- Regional transport partnerships were established to strengthen the planning and delivery of regional transport so that it better serves the needs of people and businesses. HITRANS brings together local authorities and other key stakeholders to take a strategic approach to transport in their area. HITRANS is, of course, only one of a number of organisations which determine transport provision in the area.

1.2. **Highland and Islands Airports Limited (HIAL)** is a public corporation wholly owned by the Scottish Ministers. The company operates and manages 11 Airports at Barra, Benbecula, Campbeltown, Dundee, Islay, Inverness, Kirkwall, Stornoway, Sumburgh, Tiree and Wick John O'Groats. HIAL's airports are vital to the social and economic welfare of the areas they serve, but are loss making, and are supported by subsidies from the Scottish Government in accordance with Section 34 of the Civil Aviation Act 1982.

1.3. **Highlands and Islands Enterprise (HIE)** is the government economic and community development agency for the north of Scotland. HIE work in a diverse region which extends from Shetland to Argyll, and from the Outer Hebrides to Moray, covering more than half of Scotland's land mass.

Vision

HIE want the Highlands and Islands to be a highly successful and competitive region in which increasing numbers of people choose to live, work, study and invest.

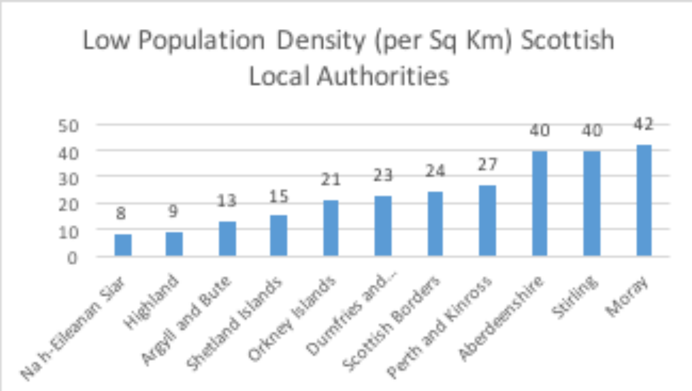
Priorities

HIE's Operating Plan 2017-18 sets out our four strategic priorities, and shows how these align with the key themes of investment, innovation, internationalisation and inclusive growth at the heart of Scotland's Economic Strategy. HIE's priorities are:

- Supporting businesses and social enterprises to shape and realise their growth aspirations
- Strengthening communities and fragile areas
- Developing growth sectors, particularly distinctive regional opportunities
- Creating the conditions for a competitive and low-carbon region

1.4. Some geographical facts regarding the size and archipelagic and mountainous nature of the area includes over 90 inhabited islands , of which 20 or so are served by airports and airfields. It covers an area of just over half of Scotland's landmass, and these realities combined with its dispersed population and low population densities is highlighted further in the Appendix.

1.5. Suffice to say that the area has some of the lowest population densities in Scotland, which themselves at 65 persons per square kilometre are low by a UK averages (255 / sq km). Scottish densities ranges from 9 persons per square kilometre in Highland Council area to 3,298 persons per square kilometre in Glasgow City Council area.



1.6. North of Scotland, therefore, has:

- a relatively small and widely scattered population limiting the scope for large scale consumer orientated local markets and therefore a limited labour market;
- it is remote by road or rail from the rest of the UK, and even more so from ‘core’ European markets; and
- has focused on, in addition to its traditional primary industries (ie fishing, forestry and agriculture), on a number of high value added sectors that are very international and export orientated.

1.7. As a result, it has a diverse economy that is home to international companies and a significant number of exporting businesses.. These businesses are heavily dependent on the access to major UK, European and global markets that aviation facilitates.

1.8. The region is home to a diverse range of airports, many dating from their RAF heritage during the war, and these provide a network of infrastructure providing intra regional connections and connecting the region with the wider world.

1.9. A summary of the regional airfield infrastructure is provided overleaf.

Table 1: Highlands and Islands Airfields (Shetland and Dundee not covered by HITRANS)						
Name	**Length**	**Unlicensed**	**Scheduled services**	**Air Service Status**	**HITRANS Area**	**HIAL Managed**
Barra	1500			PSO		
Benbecula	1685			PSO/Open Market		
Campbeltown	3049			PSO		
Colonsay	500			PSO		
Coll	500			PSO		
Dornach	775					
Dundee	1400			PSO		
Eday	518			PSO		
Fair Isle	486			PSO		
Fetlar	481					
Foula	548			PSO		
Gigha Island	720					
Glenforsa (Mull)	792					
Insch	547					
Islay	1545			Open Market		
Inverness	1887			Open Market		
Broadford	771			Upgrade ?		
Kirkwall	1183			PSO/Open Market		
Lerwick	764			PSO/Open Market		
N. Ronaldsay	560			PSO		
Oban (N. Connel)	1264			PSO		
Out Skerries	365			PSO		
Papa Stour	440			PSO		
Papa Westray	500			PSO		
Plockton	597					
Sanday	543			PSO		
Scatsta	960			Oil Operated		
Stornoway	2315					
Stronsay	540			PSO		
Sumburgh	1180			PSO/Open Market		
Tiree	1472			PSO		
Unst	640					
Westray	535			PSO		
Whalsay	457	Mothballed				
Wick	1825			Open Market		
RAF Lossiemouth	2847					
Ex RAF Kinloss	2375	Mothballed		Reserve airfield		

1.10. All of these geographic challenges have resulted in a range of public financial and policy interventions at various levels of government to ensure adequate air services, which can be summarised thus: [2] [3] [4]

#	State Aid Tool	Managing Authority
1	HIAL Airports public ownership and subsidy	Scottish Government which will move towards formal SGEI[2] justification over next few years
2	Lifeline Public Service Obligations	A range of subsidised air services sponsored by Scottish Government and/or Local Authorities dependent upon extent of route network
3	Economic PSO Air Service	Dundee – Stansted – sponsored by Dundee CC with support from DfT RACF (slightly outside HITRANS area, but instructive for possible analogous uses)
4	Resident Air Discount Scheme[3]	Scottish Government funded Aid of a Social Character
5	Exemption from Air Passenger Tax[4]	Currently from HMT, but to be devolved to Scottish Government in April 2018. 100% exemption on outbound journeys is crucial for maintaining competitiveness and reducing the risk on longer flight sectors.
6	Public Ownership of Aircraft	Shetland Government acquired two BN2 Islanders for their inter-island service and Scottish Government acquired 2 Twin Otter aircraft as a way of renewing niche aircraft types operated as PSOs.

1.11. We would ask Government to ensure that the emerging aviation strategy promotes joined up government between the various levels of government and across Departments. The priority should be to support a wider agenda for an aviation system that will facilitate business, inward investment, tourism and support economic and social inclusion.

1.12. The collective cost of these various interventions exceeds £50m pa.

1.13. Our overarching appeal to Government is that the aviation strategy does not adopt a one size fits approach but rather is able to incorporate this diversity and leverage the effectiveness of its spend by creating a final level of public intervention to maximise its benefit to the good of all regions. This should ensure enhanced and protected links from Inverness to the UK's main hub, particularly when it is expanded. This is the key priority of that partners wish to highlight in this submission.

2 Services of General Economic interest

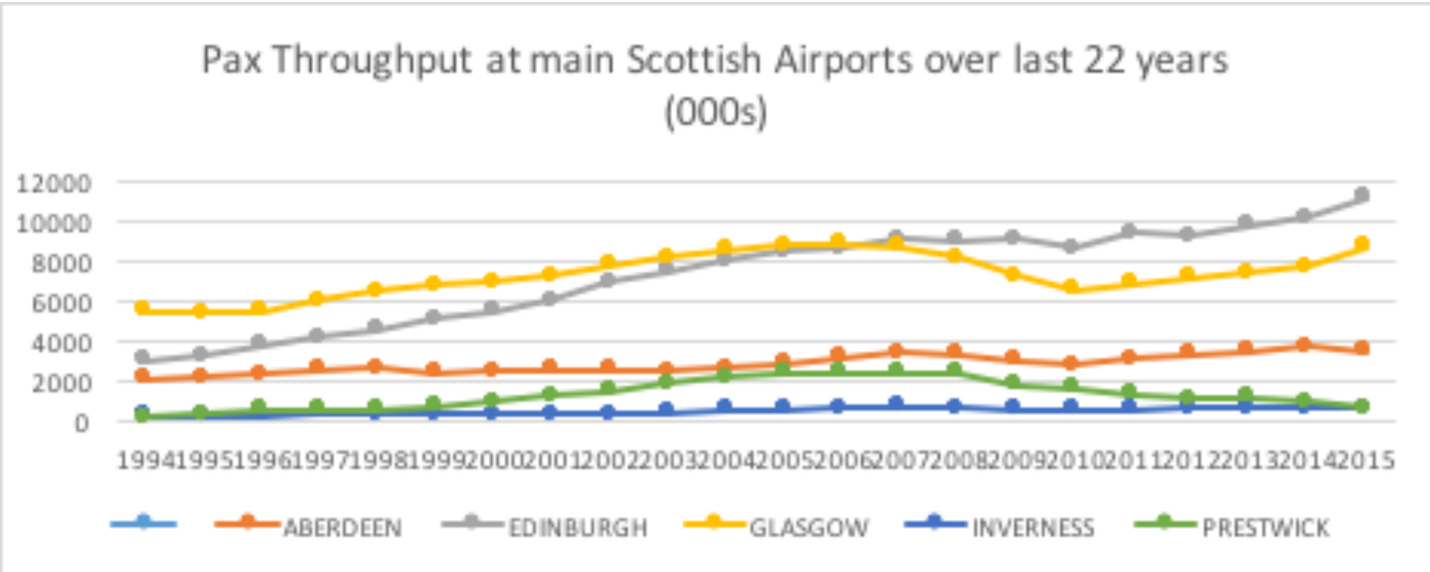
3 Discounted fares on eligible routes to people whose main residence is in Orkney, Shetland, the Outer Hebrides, Islay, Colonsay, Jura, Caithness and north-west Sutherland.

4 PSOs and the Highland Region, Western Isles Islands Area, Orkney Islands Area, Shetland Islands Area, Argyll and Bute District, Arran, Great Cumbrae and Little Cumbrae, and in the Moray District, the parishes of Aberlour, Cabrach, Dallas, Dyke, Edinkillie, Forres, Inveravon, Kinloss, Kirkmichael, Knockando, Mortlach, Rafford and Rothes

2. SCOTTISH AVIATION CONTEXT

2.1. Analysis of CAA data relating to Scotland's airports between 1994-2016 highlights several important themes and provides a helpful foundation upon which to provide a context for the important strategic regional role of Inverness Airport.

Figure 1: Scotland's Main Airports compared

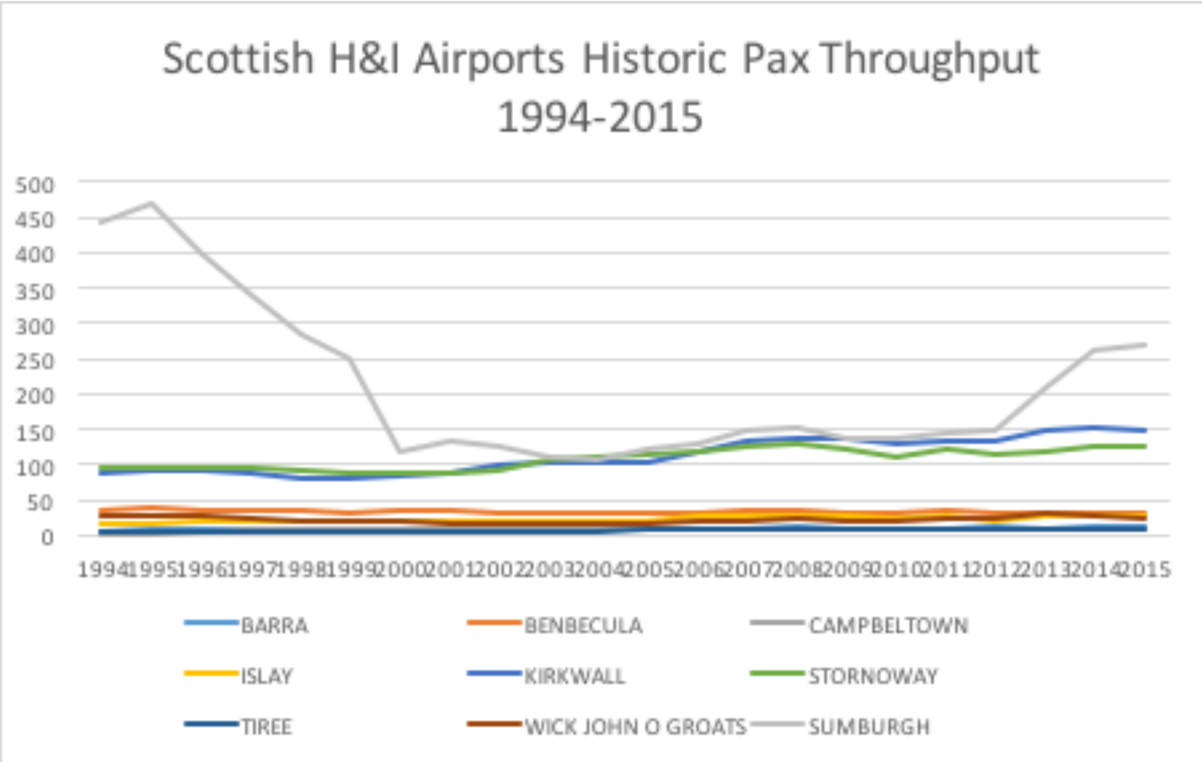


2.2. Albeit from a lower base Inverness Airport has performed on a CAGR basis on a level comparable with the other main Scottish airports over the last twenty years.

Compound Annual Growth Rate	22YR CAGR	11YR CAGR	5YR CAGR
Aberdeen Airport	2.3%	1.8%	2.4%
Edinburgh Airport	6.1%	2.5%	3.4%
Glasgow Airport	2.2%	-0.1%	4.9%
Inverness Airport	4.4%	1.2%	2.9%
Glasgow Prestwick Airport	7.1%	-11.7%	-14.0%
Main Airports	3.7%	0.6%	3.0%

2.3. The next tier of Scottish Airports (i.e. those operated by HIAL Airports - excluding Inverness), grew at a 22-year CAGR at a lower 1.4%, but with stronger growth in recent years associated with a combination of support schemes such as Airport subventions, Aid of a Social Character, PSO's and an APD exemption for outbound flights from Airports in the Highlands and Islands, and a growth in demand from the Oil and Gas sector to operate with both fixed and rotary wings via Sumburgh Airport.

Figure 3: Highland and Island Smaller Airports Performance reviewed



2.4. It should be noted that airfields such as Kirkwall, Tingwall and Stornoway act in a role similar to Inverness in that they collect feeder traffic from other islands (by ferry and air) for onward travel by air. The smaller airports such as Oban, and small airfields serving inter-island flights have been excluded from this overview, but they feed passengers into Kirkwall and Oban for regional reasons, but also to undertake onward mainland journeys.

Transit Points for H&I Travellers

2.5. The importance of Scotland's main cities as transit points for the Highlands and Islands can be appreciated by the internal Scottish airlinks, most of which are open market air services currently provided by Loganair and Eastern Airways.

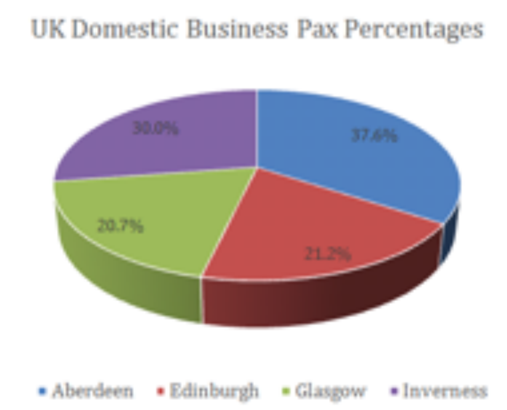
Table 2: Highland and Island Links with Main Scottish Airports

Glasgow	Edinburgh	Aberdeen	Inverness
Stornoway	Sumburgh	Kirkwall	Benbecula
Sumburgh	Stornoway	Sumburgh	Kirkwall
Barra	Kirkwall	Stornoway	Stornoway
Benbecula	Wick John O'Groats	Wick John O'Groats	Sumburgh
Campbeltown			
Tiree			
Islay			

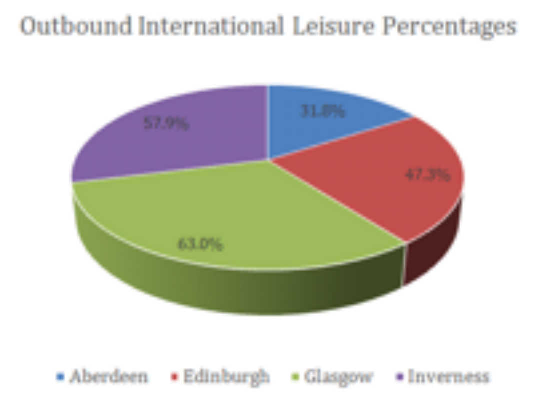
2.6. These Highland and Island destinations (above) use these larger cities as their metropolitan centre, but more significantly for this submission use the cities' airports as their transit point to other destinations in the UK and internationally.

2.7. Based on an examination of the CAA 2013 passenger surveys, the following picture emerges on type of usage of the main Scottish Airports.

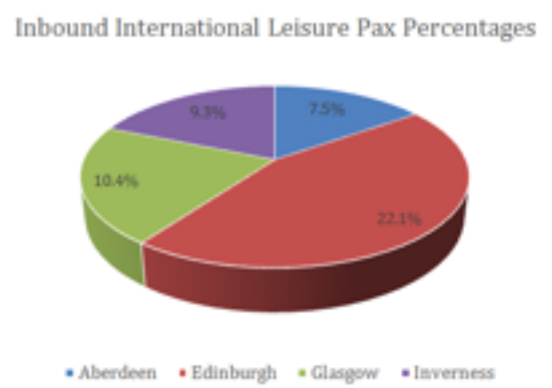
Figure 3: Varying Characteristics of Scottish Airports



The highest percentages of domestic business passengers are to found at the main North of Scotland Airports – Aberdeen and Inverness, all of which emphasises the importance of all the main airports in linking Scotland economically with the rest of the UK economy, and the lack of acceptable terrestrial transport alternatives for business users, especially for the north of Scotland.



Glasgow's main role as an outbound holiday airport is well illustrated above. The north of Scotland has ambitions to serve more of their outbound leisure requirement more locally, and some summer programs have been developing in recent years.



Edinburgh's role as Scotland's most important inbound visitor airport is graphically illustrated to the left.

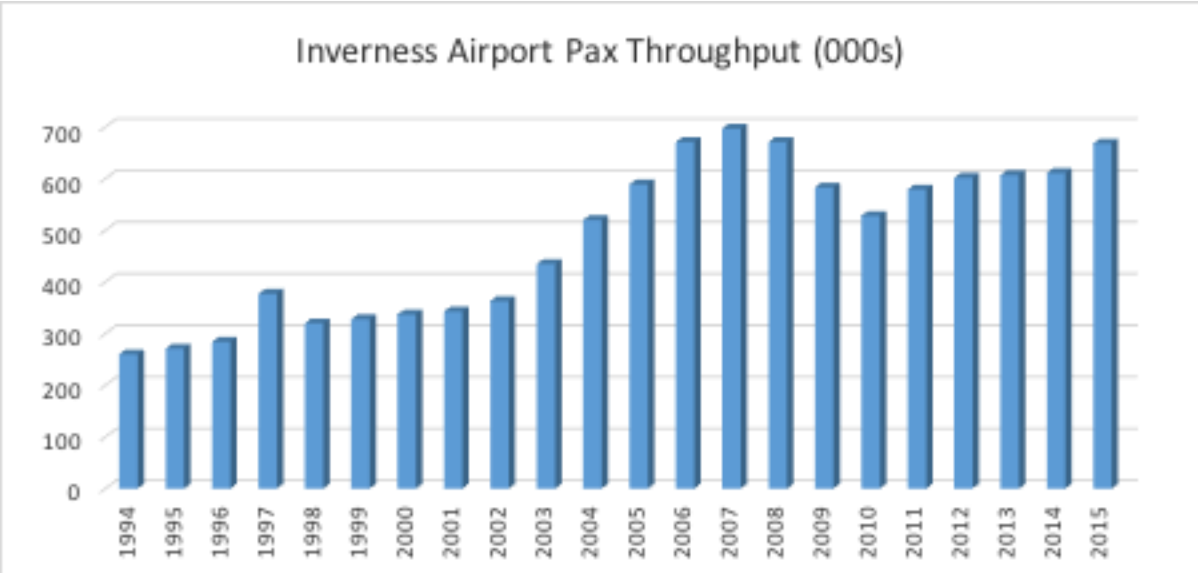
Using the central belt presents visitors to the Highlands and Islands with challenging terrestrial journeys to visit the region. More direct point to point traffic to Inverness for instance would deliver significant inbound traffic to the Highlands presenting the potential for higher spending international inbound tourists to spend their whole holiday in the region to its increased economic benefit.

As an example Swiss operator Edelweiss has just announced a new weekly service between Inverness Airport and Zurich, commencing in July 2018. The expected increase in Swiss visitors to the Highlands could boost the economy by over £350,000.

2.8. Looking more specifically at Inverness Airport it can be appreciated that it did, like all airports, suffer materially in terms of passenger volumes during the recession, including the earlier withdrawal of BA from Heathrow, Flybe from Gatwick and Ryanair altogether. It now shows signs of returning to earlier long term growth trends, and by 2016 the 2007 peak of 700,000 passengers was exceeded by 83,000. When examined over an extended period, its 22 year CAGR of 4.4% is surpassed only by Edinburgh at 6.1% in Scotland, whilst GLA and ABD have managed lesser rates of 2.2% and 2.1% respectively. Further recent positive developments of enhanced services into LHR, DUB and AMS are underpinning its stronger performance recently.

However ambitions exist to improve these links to make them more useful for business with increased frequency and better onward travel timetabling. Although there is growth in Inverness' hub connections they still remain thin and fragile, with a reliance on inbound leisure. Recent progress has been partly as a result of the drop in the Pound, which could thus be easily reversed. The single flight / day to Heathrow is increasing to two flights / day on three days each week next year but the link is still very vulnerable. The strategy should have something to say about the legitimacy and process of protecting and enhancing such critical airlinks.

Figure 4: Inverness Airport's performance since 1994



2.9. Inverness Airport performs an important connectivity role for its region. Table 3 summarises the current destinations and seasonal offers. It should be noted that also a reduction in frequency on some key scheduled routes in the winter, which weakens their utility for business use.

Number of Scheduled Destinations	**INV**
Scottish	4
UK Domestic excl. Scotland	8
Shorthaul Europe	1
Longhaul Asia, Africa and Americas	0
Scheduled Totals	**13**
Seasonal Destination Offerings	**INV**
Scottish	0
UK Domestic excl. Scotland	1
Shorthaul Europe	3
Longhaul Asia, Africa and Americas	0
Seasonal Destinations	**4**

2.10. Inverness Airport marketing underlines the long journey times and change of travel mode that are required to access other Scottish Airports from the Highlands by public transport. Suffice it to say that a further two to three hours travelling can be added to these times for Skye and Caithness travellers also complicated by less frequent public transport links.

3. HIGHLIGHTED ISSUES

The Importance of Hub Access

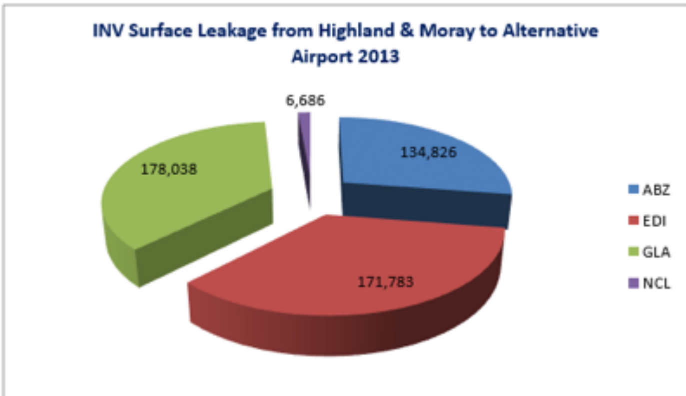
3.1. A key characteristic of hub airports across the world is that they are able to serve destinations that other airports are not. This is because a hub airport supplements local demand with transfer passengers, providing traffic volumes which support higher frequencies of services on more popular routes, and enabling services on more marginal routes that would not otherwise have proved viable with fewer passengers. This is particularly important for regions such as the Highlands and Islands, which are essentially one of many spokes supporting the effective functioning of the larger hub 'wheel'. However the north of Scotland presents operators with the prospect of longer sector times, higher operational costs and therefore increased risk.

3.2. Currently in the UK, however, domestic access to the country's principal hub is heavily constrained by lack of capacity and the priority given to long haul international services by underlying airline and airport economics. This meant the regional spokes were slowly disconnected from the hub and the important onward connectivity it provides. This position is made worse by the fact that the other London Airports (Gatwick and Luton), offers a much more limited range of onward (mostly short haul) international services, many of them requiring self rather than interlining connections. Inverness has a very important range of destinations (Table 3) and adequate frequencies to some centres such as Gatwick and Amsterdam, and single daily frequencies to LHR and DUB (Table 4).

Table 4: Inverness Air Service frequencies to key destinations		
Europe's Hubs	Summer weekly frequencies2017	Winter weekly frequencies
Amsterdam	14	5-7
Dublin	9	3
London	INV	
Heathrow	7	5-7
Gatwick	18	15
Luton	11	6-7

Reducing Catchment Leakage

3.3. The Highland Catchment historically has endured high levels of catchment leakage. In a 2015 Evidence Report prepared for HITRANS it was noted that "despite its relative isolation there is still a substantial leakage of traffic from Inverness's core catchment in the Highlands and Moray. Since the 2009 CAA survey this seemed to have grown materially from around 320,000 in total to nearly 500,000 by 2013. At 44% (vs 42% in 2009) this is well above the levels at many regional airports. Of those leaking passengers that are London bound, the percentage flying to LHR increased from 62%-77% in the period between surveys. At that stage it had become the principal London airport which passengers in Inverness' catchment area were willing to travel to another airport to access. Despite 12,000 connecting passengers who were then using the new Amsterdam route, the welcome addition of a once daily flight to Heathrow has been important. Now ambitions exist to improve the utility of the link with increased frequency and enhanced onward travel timetabling. It seems that UK strategy should be mindful of the environmental impact (much of it by car), and fatigue and cost burdens that such leakage imposes upon the region and the country.



Source: CAA Scottish Airports 2013 Survey Data

Fly Local Where at all Possible

3.4. Copenhagen Economics in the 2013 IATA ECONOMICS BRIEFING No 11[5] on Airport Competition, demonstrated that isochrones are a simple and arbitrary metric and do not adequately capture passenger preferences or behaviour. Catchment areas vary depending on the specific circumstances of different areas and may be influenced by a range of factors. Indeed, catchment areas may even vary for different types of route offered from a given airport, for example for short- or long-haul routes, or for different types of passengers, such as business or leisure. Therefore, a much more sophisticated toolkit is required in order to understand airports' actual catchment area and the impact that this has on the extent of effective competition with neighbouring airports.

3.5. IATA Economics Briefing No 11 cites Frontier's research alongside other evidence in that study, and led them to emphasise that there is "considerable evidence that passengers prefer to use their local airport."

3.6. Which Airport surveys of UK travellers frequently highlight how they prefer the experience of using less congested airports and will gravitate to them if adequate service networks can be provided. The general point is that travellers like to use their local airport as it saves time, money and is often less stressful to access and easier to traverse. There is other evidence (Frontier Economics[6]) that revealed behaviour accords with these stated preferences as documented in these surveys. Aviation strategy must acknowledge these consumer preferences.

5 IATA Economics Briefing No 11: "AIRPORT COMPETITION" by James Wiltshire, November 2013

6 Frontier applied to the likelihood of passengers using Stansted as opposed to the alternative London airports of Gatwick or Luton, for a range of popular destinations. This sophisticated analysis shows quite clearly that as drivetime to the alternative airport approaches 120-minutes, the probability of passengers using these airports falls close to zero. In contrast, isochrones would present these airports as equally valid competitors to Stansted. This, alongside other evidence in the study, led them to emphasise that there is "considerable evidence that passengers prefer to use their local airport."

3.7. The preferences of business travellers is often expressed as the ability to achieve an effective day's travel at either end of the route[7]. They in particular seek efficient travel and their cost of time is recognised by the DfT as much higher than leisure travellers. In Sweden this insight is actually framed in policy with the objective that all Swedish citizens can achieve an effective day's work in the capital (by whichever travel mode) and still be home at a reasonable time. UK aviation strategy should develop some cognisance of inequities in access times and to destinations across the country, and response options when these fall below acceptable minima. If Britain is to be a truly global then some measures of the internationalised accessibility and reachability (to use the Swedish term) of UK regions needs to be undertaken with a view to identify weak spots and deliver remedies.

Environmental Considerations

3.8. It is much more environmentally sustainable for passengers to use their local airport and shared air services, especially as so many people, especially away from the main cities, use their own individual vehicle to access air services. Indeed reducing car emissions and safety / fatigue concerns resulting from high catchment leakage to more distant airports seems to be an easy target in terms of emissions reduction that should be acknowledged.

3.9. Government has allowed an environmental theme to develop that considers aviation as the environmentally damaging form of of transport without a more subtle understanding of the progress the sector has made in improving it's environmental impact or a coherent case being made of the significantly positive impact it has. Public funding allocations for transport investment have unfairly tended to reflect the resulting distaste vocalised by environmental lobby groups. In the H&I aviation must continue to play a central role where High Speed railways and other metropolitan transport initiatives such as trams or Light Railways will not deliver benefit.

7 "two daily frequencies can be considered normal in most cases" DG-MOVE PSO guidelines - targeted consultation 2015

Direction of Causation –
Connectivity and Economic Development

3.10. Recent research by Baker, Merkert[8] and Kanruzzman (2015) has developed the case for catalytic effects further, by providing the first empirical evidence of strong short and long run bi-directional causality between enhanced regional air transport and economic growth based on an examination of 88 regional airports in Australia over a period of 1985–86 to 2010–11. And using the same kind of Grainger causality analysis, Derudder (2014) has even been able to point to evidence of positive causality where air links have been materially enhanced in remote and peripheral regions.

In a study, and using employment as a proxy for economic development[9], Derudder was able to demonstrate that improvements in connectivity, particularly in more peripheral and less well developed economies have a positive and fast acting stimulative effect. The Highlands of Scotland was identified as one such region.

Figure 3: Employment and Connectivity – Direction of Causality

8 Dr Rico Merkert is a partner to SPARA2020 and Associate Professor in Aviation Management at the Institute of Transport and Logistics Studies at The University of Sydney, Australia

9 Presentation to the UK All Party Parliamentary Group on Regional Aviation – Autumn 2014

3.11. It seems that the UK could usefully attempt to apply this type of methodology in the context of policy development.

Tourism

3.12. VisitScotland currently places particular focus on the following markets for tourism growth:

3.13. In all cases links to key urban centres and areas of major economic growth will deliver valuable business traffic as well as international traveller prospects.

3.14. Consolidation of traffic over hubs makes for more viable services from the airline's point of view and greater choice of connections for the consumer. Regions require a mix of direct, non-UK hub and national UK hub connections

3.15. Direct air services to regional airports can increase the (time sensitive) short break market; avoiding leakage of visitor spend to other regions/countries that can occur with non-direct routings

3.16. The 2016 survey tracking International trips to the Highlands and Islands of Scotland demonstrates very clearly the transformative effect of the new links with Heathrow and Amsterdam. This summer (2017) there was a 64% growth in international passengers through Inverness. The LHR study undertaken in 2016 projected a £9 million injection to the Highlands and Islands economy based on a single daily route. The current assessment is that events are probably exceeding this in than that passengers numbers also simultaneously grew on both the INV-LTN and INV-LGW services, which would suggest stimulation rather than displacement.

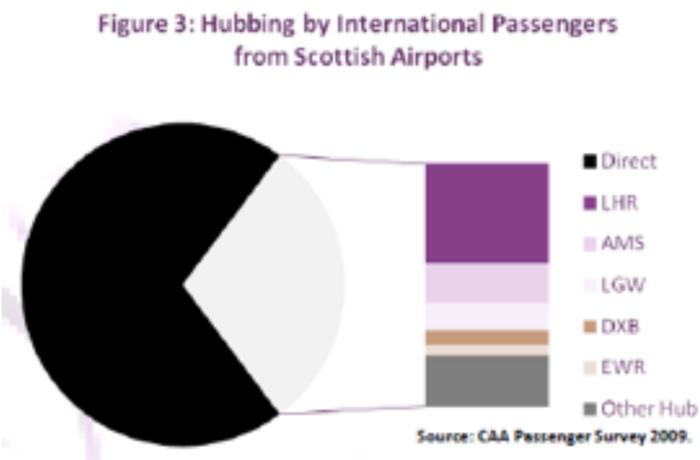
USA	144,000 +33%
Germany	113,000 +10%
France	56,000
Australia	33,000
Netherlands	35,000
Spain	11,000
Canada	33,000 +27%
Italy	27,000 +93%
Rest of World	154,000

3.17. Where sustainable, direct flights to non-UK hubs- e.g. European hubs with distinctive strengths such as connections to Asian or South American markets.

3.18. Direct regular, ideally interlined, connections with the national UK hub to ensure good connections to high value long haul visitors from Commonwealth, US and emerging markets in particular, which are either not sustainable for direct regional services or less feasible from non-UK hubs

3.19. Time-saving, however is a key consideration in point-to-point services, which Scotland is keen to further develop. The discretionary business travel, or Meetings, Incentives, Conferences, and Exhibitions (MICE) sector is a growing and lucrative market for Scotland. Direct point to point services from key European markets are highly valued including from Germany, France, Netherlands, deliver visitors who are looking for a solus Scotland experience avoiding bednights spent in London or England en route.

3.20. Scotland is only too aware of the importance of hubs in facilitating Scottish overseas visitors.



Appraising the Economic Benefits of New Air Routes: Technical Report for Scottish Enterprise – 2012 – York Aviation

Connections with the National UK hub

- UK regions can better reach out to long haul and high growth tourism markets.
- Regional tourism bodies could refine strategies to reflect enhanced air connectivity.
- Target repeat visitors who more likely to venture beyond London this time round.
- Certainty of future connectivity (as a result of declared UK government policy) would underpin significant investments in attractions and facilities (e.g. conference centres requiring high levels of air connectivity), and continue to underpin the aim to extend the high season into the shoulder and low season months.

Direct versus Connecting Inbound Tourism

3.21. A recent VisitScotland study of German visitors travelling direct to Scotland reported them spending on average 93% of their time in Scotland itself. These longer stays in Scotland ensure that visitors can travel and spread the economic benefit of their trip more widely to remoter communities as much as to the arrival cities. Another VisitScotland study noted that directly arrived French visitors on average taking in more than 5 different regions of Scotland.

3.22. However as few of these international visitors can access the Highlands directly by air (9.3% Figure 3), the region must significantly either rely on:-

1. Terrestrially connecting international visitors from the Scottish central belt, with significant travel times already highlighted.
2. Or maximising passengers flying directly into the region's main airport usually via hubs such as LHR, AMS and DUB or MAN.

3.23. Inverness Airport's route development team note that direct flights are always preferable but in their experience hubbing delivery has also produced very effective results.

4. GUARANTEEING ACCESS FOR THE HIGHLANDS TO THE UK'S MAIN HUB

4.1. For the development of a proper UK hub in the South East of England to be a truly 'national' hub which benefits all parts of the UK, not just London and the South East, mechanisms need to be put in place that "guarantee in perpetuity" slots for access from all the UK regions that need them.

4.2. The exact mechanism for achieving what effectively is a slot reservation strategy will need careful thought to ensure that it is compatible with relevant International, European and UK state aid and slot regulations. PSOs are one possibility as they can potentially confer grandfather rights on those slots for that region.

4.3. In the context of the current international short-haul portfolio of routes at Heathrow, it is worth noting that there are:

- A number on which there are up to three competitors;
- and others which serve outbound leisure destinations and are therefore less important in the context of the wider UK economy than routes which connect UK regions globally through LHR as a hub.

4.4. Considering Paris and Brussels for example, there are already high frequency High Speed train (HST) services to both cities that offer attractive travel times for point-to-point journeys to and from London. Yet air services on these routes still absorb 372 slots per week (that is over 19,000 per year or 25 slot pairs per day at Heathrow alone). Moreover, Eurostar offers high speed rail connectivity from London to the Netherlands (Amsterdam), Germany (Cologne and Frankfurt), southern France (Lyons and Marseille) and Switzerland (Geneva), and there is also interest from other HST operators in these countries in doing the same. With rail access times of 2.0-4.5 hours on many of these routes, there should be less reliance on air connecting these locations certainly when doing so is at a cost to connectivity for UK regions.

4.5. Imposing some form of route based frequency cap on these routes would therefore seem a readily achievable way of generating the supply of additional slots required. With surface travel times from Inverness to London and its airports of between 8-10 hours, passengers need to fly.

4.6. We estimate that if the number of services to Amsterdam, Brussels, Paris and Dusseldorf alone from Heathrow were reduced by 25% (Cologne has only 3 flights in each direction per day and is therefore excluded) and some of this lost seat capacity could be replaced by up-sizing the types of aircraft used on the route), nearly 200 slots would be released. If Frankfurt and Geneva were also included, that figure would rise to over 250, which is more than sufficient to meet the needs of the UK's peripheral regions, without having to cannibalise slots to other parts of the UK.

5. KEY SUBMISSIONS

I. The Partners urge the DfT to reflect upon whether there should be a consistent rationale as to which UK airports and regions should have access to international hub(s) – if not Heathrow; then other international hubs (eg CdG, AMS, DUB, CPH). This is too important to be left to the vagaries of imperfect markets with all sorts of capacity and supply distortions, particularly as these discriminate against smaller catchments, economically weaker regions or less densely populated areas requiring smaller aircraft.

II. The Partners consider that there is a strong case for Inverness (as key centre for the Highlands) to be prioritised for access to the UK's main hub when it expands (ideally to 2/3 rotations per day), and as this is not currently possible to consider what interim measures are appropriate to maintain, protect and enhance the region's global connectivity. Indeed we consider this approach should be applied to all the UK regions, in concert with the Devolved Administrations and Regional Authorities where appropriate. The analysis of frequency and seasonality should be included in any consideration.

III. The Partners urge the DfT to monitor and report on regional connectivity in line with similar EU parliament resolutions[10]. Scotland could adopt formal measures of connectivity so that changes in the region's connectivity can be tracked, protected and enhanced against measurable criteria[11]. Such indices could eventually be incorporated into government policy (at appropriate levels – whether national or devolved) as targets. Connectivity is not just a function of direct destination links with the region but is also a function of capacity, frequency and onward connections at destination airports. The 2014 National Connectivity Taskforce Report[12] highlighted many of the issues relating to improving UK regional connectivity, that now become consciously recognised as a core justification for new runway capacity in the English south east.

VIII. In light of Brexit the Partners urge that the DfT ensure State Aid rules are fully explored, and ideally optimally aligned with the UK's current needs. The DfT we suggest should remain mindful of the ACARE Flightpath 2050[13] aspirational target to create a common access standard that by 2050; all European citizens should be able to reach all parts of the single market (sic) within 4 hours. This implies much more extensive use of time efficient modes like air travel or High Speed Rail, combined with smaller airport catchments and much more extensive use of regional airports. Even in light of Brexit such aspirations should not be abandoned.

- As an example the whole of the Highlands and islands is categorised as an Assisted Area (a 3"c" area under regional Aid guidelines) by virtue of low population density and recognised development challenges. There may be other more appropriate criteria to apply in transport terms to the region such as 'peripheral' areas – namely those that are not categorised as remote, but which are some significant travel time from the national capital or the heart of the EU single market. The current APD dispensation and the Air Discount Scheme are two such interventions recognising the region's special transport challenges.
- The PSO regulations make reference to 'Development Regions' and the UK has a fresh opportunity to revisit this designation and reconfirm those regions that remain worthy of additional state support. The current State Aid Assisted Regional map[14] is the one currently adopted for this purpose.

IX. The Partners also urge the DfT to update its guidelines for PSOs and specifically its misnamed Guidance on the Protection of Regional Air Access to London. This we would suggest should be reframed as Guidance on Support / Protection for Regional Air Connectivity,

10 EU Parliament 2011 adopted resolution

11 The Swedish Transport Agency track domestic and international with measures for accessibility and 'reachability' for their regions

12 http://www.nationalconnectivitytaskforce.co.uk/

13 http://www.acare4europe.com/sites/acare4europe.org/files/document/Flightpath2050_Final.pdf

14 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/310564/2014-2020_UK_Map_A1.jpg

and incorporate both PSO and Route Development Fund interpretations and potentially other matters concerned with an integrated regional development / rebalancing policy. Examples of issues to be addressed are listed, although we would contribute much more comprehensively to a review of this important area.

- One point we would like to highlight has been brought to the fore by the development of UK PSOs to London (Dundee and Newquay). These PSOs may, or may not, require subsidy to operate, but the principle on who should fund has, in our view, largely been fudged. The PSO protocols[15] imply that it is up to the regions to fund a link with London[16]. The use of the RACF to help Dundee secure a threatened link with London underlines the fact that an air service benefits both ends of the route in that it not only enables Dundonians to access London more efficiently - it conversely allows Londoners to link more efficiently with Dundee. It is not clear which end of the route will enjoy the most benefit – in reality it will be both ends of the route. It therefore seems perverse that one end of the route should be solely responsible for funding.
- One other aspect of the PSO policy guidance may need updating[17]. This concerns onward connectivity. The recent EU PSO draft guidelines[18], the Davies Commission deliberations and broader practice from around the world[19] indicate that onward connectivity should be a legitimate consideration in PSO assessments. The DfT needs to more formally acknowledge this important role in its PSO guidance, which we suggest needs updated in the light of Brexit, an expanded Heathrow and globalising the UK economy and regions.
- Treating London as one destination has been undermined by EU interpretations which make clear that PSOs are airport to airport and not airport to city[20].
- The Aviation Strategy should also have something to say about the role of aid of a social character as it relates to aviation and the interaction of national and devolved powers with regard to this. The Partners would be keen to contribute to the development of such a section in the Strategy document.

X. Links with hubs such as Heathrow, Gatwick, Amsterdam, Dublin, Manchester and Birmingham are particularly valued for the Highlands and Islands region and Wick John O'Groats Airport, Stornoway, Benbecula, Kirkwall, Barra, Tiree, Islay and Campbeltown benefit from their air links with, and onward connections from Inverness, Glasgow, Edinburgh and Aberdeen Airports. The Partners urge the DfT to continue to place value (and policy support) on supporting links with alternative regional hubs which incidentally may well be able to justify airlinks with smaller airports in the Highlands and Islands.

15 webarchive.nationalarchives.gov.uk/20160118225004/https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266383/pso-policy-guidance.pdf

16 The Aviation Policy Framework stated that it would be the responsibility of Devolved Administrations, Local Enterprise Partnership (LEP) or local authority in England for developing the business, financial and legal cases required by EU regulations on PSOs and for demonstrating the importance of a particular air service to the economic development of areas of the UK. (DfT Policy Guidance)

17 This Regulation was designed to protect lifeline routes to peripheral or development regions, not commercially viable regional services into congested hubs where they compete against alternative uses of the slots. (UK DfT historic interpretation)

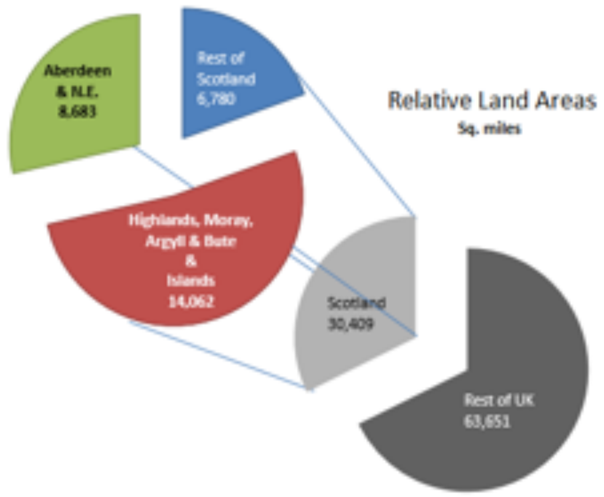
18 Onward connectivity – i.e the destinations and frequencies offered by the airport - is one element in this assessment, but it cannot be the only justification for the choice of a specific airport over another. EU Draft Guidelines

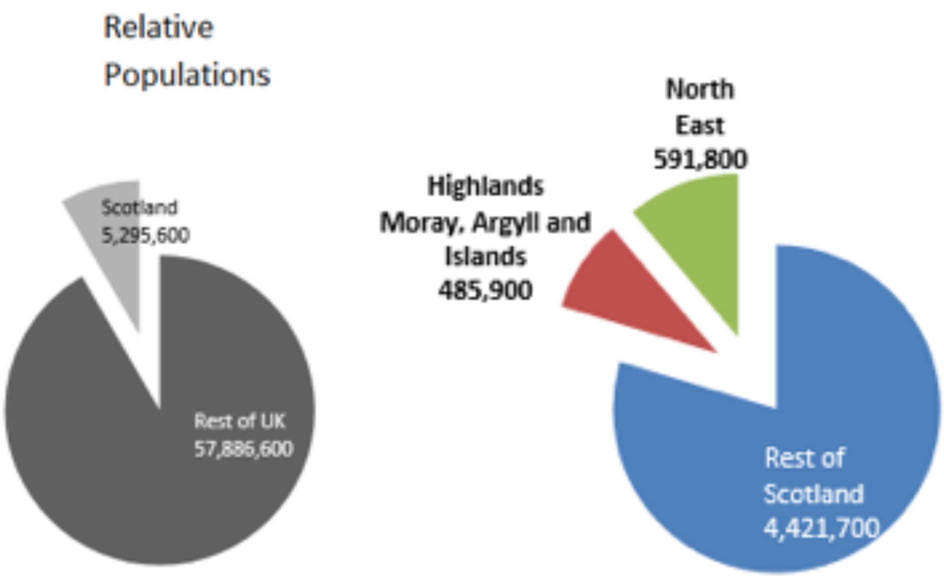
19 The USA and Canada for instance place onward connectivity at the heart of their essential air service programmes.

20 That the PSO route is always defined from one airport to another and not with reference to two cities or regions, the selection of the airport for the purpose of PSO should be properly justified. (DG-MOVE)

APPENDIX 1
Geographical Overview

The Highlands and Islands has to cope with some geographical realities.

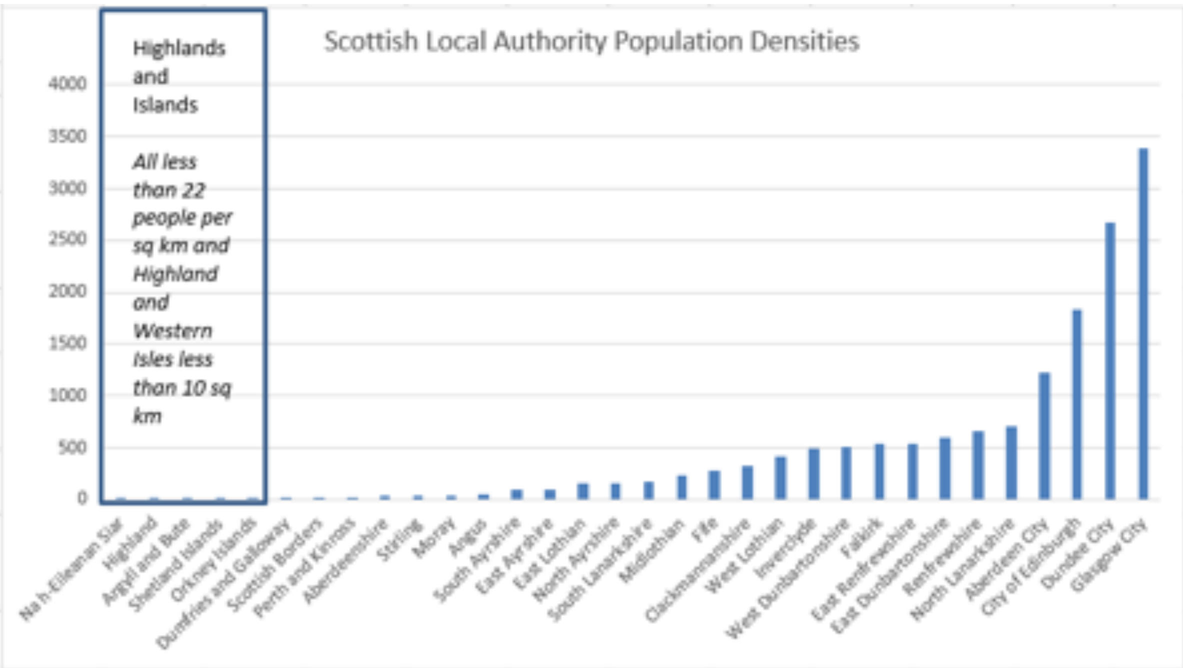




The Highlands and Islands is a large geographical territory that accommodates over 450,000 residents (less than NE Scotland) – 10% of Scotland's population. The area includes over 90 island communities, of which 20 or so are served by airports and airfields. It covers an area of just over half of Scotland's landmass. Air services are fundamental to daily life in the Highlands and Islands. For the island and remote mainland communities, the only alternative to air travel for accessing the mainland and service centres (on occasions on another island) are ferry services or long journeys on poor quality land based infrastructure.

Rail alternatives are available to most UK mainland destinations, but bear in mind that an Inverness-London takes at least 8 hours or requires an overnight journey by Sleeper. Road journeys are also possible but it should be remembered that Inverness – Aberdeen, Edinburgh or Glasgow is approximately three hours and journeys from centres such as Wick and Skye can add a further two to three hours onto these journeys. In 2010, 88% of all Inverness-London rail/air journeys were made by air.

Population densities are typically very low by UK or even Scottish standards.



APPENDIX 2
‘Fairness’ in Resource Allocation

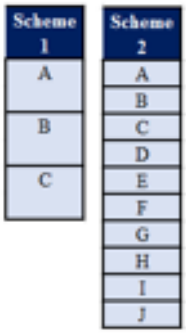
Regions	Scheme 1	Scheme 2
	Units	Units
A	2	3
B	2	3
C	6	3
Totals	10	9

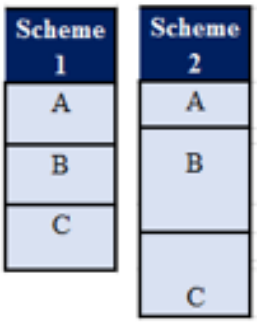
Regions	Scheme 1	Scheme 2
A	5	4
B	5	4
C	5	3
D	1	3
E	1	3
Totals	17	17

Differing aims and ideals result in different choices and outcomes. Units or size of box refer to relative resource allocated

Following the notion of the greatest good for the greatest number we could end up with the choice between distributive schemes 1 and 2 where Scheme 1 delivers the overall Greatest Good, whilst Scheme 2 allows a greater number of regions to benefit and with more equal sharing.

In this example Scheme 1 ensures a greater number of regions benefit more, whilst Scheme 2 puts more value on greater equality of shares





Regions	Scheme 1	Scheme 2
A	1	3
B	1	3
C	5	4
D	5	4
E	6	4
Totals	18	18

Scheme 1 offers greater good per region, whilst Scheme 2 offers greater total good but less per region.

Scheme 1 though achieving equal minimum shares also delivers smaller total good, whilst Scheme 2 offers greater good for greater number; but A may fall below some legislative minimum. If a compulsory minimum is prescribed, scheme 1 is preferred.

Given that A & B get the prescribed minimum shares in this next set of options, Scheme 1 delivers the greatest good to the greatest number of regions whilst Scheme 2 has the attraction of a more nearly equal distribution.

Regions	Scheme 1	Scheme 2
A	7	6
B	7	6
C	7	6
D	4	10
E	4	12
Totals	29	40

Regions	Scheme 1	Scheme 2
A	5	9
B	6	1 (min)
C	10	12
Totals	21	22

Scheme 1 ensures greatest number get more and smaller deviations from average, but Scheme 2 offers greatest good distributed; wider deviations from average Therefore there is a choice between more equitability and much greater good.

Scheme 1 ensure much more equitability; slightly smaller good Scheme 2 deliver slightly more good; greater overall number benefit but less equitability. Therefore there is a choice between more equitability on the one hand and greater good for the greater number on the other.

APPENDIX 3
The Importance of Air Connectivity – Reflections from Key Figures in the North of Scotland's Economy (compiled in 2014).

What follows below, are a series of sectoral profiles painting a picture of key economic sectors on the North of Scotland and observations from key figures in each of those sectors on the role of air services and links to London in particular:

Tourism Sector

Scotland attracted 2.2 of the 15.5 million visitors that came to the UK in 2012 and 8% of all visitor spending. London dominates the overseas visitor market in the UK, but Scotland out-performs other UK regions and also has a strong domestic market. As a result 14% of the Scottish workforce is engaged in tourism representing 100,000 FTE jobs and serving 50 million visitors (inbound and UK). The industry contributes £3,000 per head of population for Scotland - 84% of visitors are from the UK and 16% are international but the international visitors represent 35% of the revenue.

Of the international visitors 65% come from Europe, 20% from North America and 15% from Australian and New Zealand. According to the IPS (International Passenger Survey) and the UKTS the total value of tourism to and in Scotland in 2010 was £4.072 billion. Tourism is Scotland's fourth largest export earner attracting inbound visitor spend worth £1.4 billion each year.

VisitScotland places particular focus on the following markets for tourism growth:

- The US and Canada,
- Western Europe (including in particular: Germany, France, Netherlands, Spain, Italy, Scandinavia)
- BRICs (Brazil, Russia, India, China)
- The UAE for high end tourism as well as connectivity to markets including Australia and New Zealand.

In the UK context 72% of overseas visitors arrive by air, while in Scotland 88% of international visitors travel by air and these are the higher spending visitors. The remainder arrive in Scotland by ferry (mainly from Ireland).

Scott Armstrong – Previous Regional Director, VisitScotland
"Tourism is crucial to the economy of the Highlands and Islands supporting accommodation providers; visitor attractions; restaurants, bars and many other leisure businesses. To make the most of the regions potential it is essential that visitors can travel easily and reliably between the main transport gateways of the UK and the H&I region."

Ashe Wyndham – Chairman of The Queen Elizabeth Castle of Mey Trust
'It is not only the casual visitor will suffer from an inability to get up to Inverness by air before 10.55 in the morning, but also our high powered guests, trustees, southern based consultants and contractors. It is now not possible to conduct a day's business in Inverness without resorting to a night's stay or a sleeper train.'

The challenges of running The Castle of Mey, near Thurso, which happens to be the most northerly Visit Scotland 5 Star Visitor attraction on the mainland, are many and varied. 75% of their overseas visitors arrive by car at the Castle, with the majority of these having been hired in Inverness, and 14% of those completing their exit survey were from overseas. They usually undertake the two and a half hour, 90 mile drive from Inverness.

Freda Newton – M.D. Jacobite Cruises Ltd Inverness
"Connectivity is essential to the tourism economy in Northern Scotland. Overseas visitors spend on average £306 million per annum (VisitScotland survey 2011). Increased connectivity and therefore increased passengers even by a small percentage would make a major contribution to the economy of the Highlands."

Jacobite Cruises in Inverness delivers one the iconic experiences for Highland visitors of cruising on the world famous Loch Ness.

Food and Drink Industry

The industry body, Scotland Food and Drink have the realistic aim to position Scotland among the world's top 3 producers of premium food and drink products and generate £16.5 billion per annum by 2017. The strategy intends exploiting the growth markets of premium, health and provenance, and identifies the six priorities to stimulate this growth - primary, productivity, export, environment, innovation and reputation.

Scottish Food and Drink includes alcoholic beverages, bakery and cereals, confectionery, dairy, fish and seafood, food ingredients, fruit and vegetables, meat, game and poultry, non-alcoholic beverages, prepared foods, preserves and sauces. Baxter's Soups, Crawford's Shortbread and Aberdeen Angus beef are all iconic names that spring readily to mind.

The Scottish Seafood Industry is a key element of the foregoing. The industry includes sea fishing, aquaculture and the processing, marketing and sale of shellfish, salmon, demersal and pelagic fish. It is worth over £1 billion to the Scottish economy each year, employs around 14,000 people and accounts for over half of Scotland's food exports. A 2011 Hitrans report discovered that in recent years, Scotland's share of total UK seafood exports, many of them by air, has ranged between 63% and 72%, and the preponderance of this produce comes from the North of Scotland.

Salmon is Scotland's largest food export. The worldwide retail value of Scottish farmed salmon is over £1 billion. Over 60 countries imported fresh Scottish salmon in 2012. USA is the largest export market for Scottish farmed salmon, followed by France, with growing volumes heading to emerging markets such as the Far East and Middle East. Scottish Government estimates that 6,200 jobs are reliant on the aquaculture industry in Scotland[1].

Whisky production is a great Scottish success story. As Billy Walker of BenRiach observed "We really are in an extraordinary period which can definitely be classified as "a golden age". The amazing thing about Scotch whisky is that this little country of some 5.2m people has successfully secured the position of making Scotch whisky the absolute international drink of choice." In addition to the huge market in the United States and France, Scotch has had great success in attracting the fast-growing middle class in emerging markets from South America to Asia and Africa. 93 million cases were exported worldwide. Exports generated £4.3 billion for the UK balance of trade, a record high and contributed about £1 billion to the Exchequer in taxes. Around 10,000 are directly employed in the Scotch Whisky industry - many in economically deprived areas, and over 35,000 jobs across the UK are supported by the industry. Supplies are reckoned to cost the industry around £1.5bn[2], of which 80% goes to Scottish firms, including grain farmers, packaging and haulage[3].

[1] Seafood Scotland
[2] Scotch Whisky Association May 2013;
[3] Analysis by Biggar Economics consultancy, in work commissioned for BBC Scotland

Michael Urquhart, Director, Gordon & MacPhail

"Gordon & MacPhail is a fourth generation family wine & spirit merchant business which owns the Benromach distillery. It exports around the globe and as such it is vital that we can access current and emerging markets easily by air. The lack of a direct link from Inverness to Heathrow is a real frustration both in terms of getting to market but also in overseas visitors coming to visit distilleries in the area."

The whisky industry is high value and export orientated and therefore a major user of air travel. There are 108 distilleries licensed to produce Scotch Whisky with a preponderance in the North and West of Scotland. Speyside in Morayshire has a powerful cluster of distilleries.

Golf Industry
Grant Sword - Partner at Castle Stuart Golf Course, Inverness

"the loss of the Flybe flights (from London City) to Inverness are having a detrimental effect on our business at Castle Stuart Golf, in the last few weeks we have seen two large groups cancel their bookings because of the difficulty they experienced when booking their flights. Not only can they not get a through ticket or through baggage, but the timings just don't seem to jive well with incoming or outgoing connections"

The Highlands has 44 fine links and inland golf courses with Royal Dornoch, Nairn and the recently opened Castle Stuart near Inverness Airport being collectively the most high profile attractions for golf connoisseurs. Tourism interests in Inverness are particularly vulnerable to the reduction in timetable frequency northbound from London in the light of Flybe's recent changes.

A 2013 'Value of Golf to Scotland's Economy' report finds golf in Scotland is now a £1 billion industry. The industry generates £1.171 billion in revenues, including direct, indirect and induced effects. More than 20,000 people are employed in golf in Scotland – one in every 125 jobs are dependent on golf – creating wage payments of £300 million. Once costs are taken into account, golf directly contributes £496 million to Scotland's gross domestic product (GDP) annually, equivalent to 0.4% of the country's total economic output.

Based on 2011 data golf tourism generated £120 million in revenues for the Scottish economy. (This excludes green fee revenues, which are counted in golf facility operations data. Scottish Enterprise estimates the total economic impact of golf tourism in Scotland to be £220 million annually.)

Approximately 1,480 people were directly employed in golf tourism jobs. Approximately one-third of all green fee payers were from outside Scotland. Of these, 57% were from the rest of the UK, 19% from Europe, 17% from North America and 8% from elsewhere.

The core markets for golf tourism in Scotland are the UK and Ireland at 70 per cent, and three overseas markets at 30 per cent. Of the overseas markets 50 per cent are from US and the remaining 50 per cent are split between Scandinavia and Germany. Although the overseas golf market represents a much smaller number of visitors, it is the market segment that is likely to generate more revenue. This market spends more per head than UK golf visitors and more than the average tourist to Scotland, so they are a particularly lucrative group of visitors.

The Education Sector

The higher education sector in Scotland is diverse. It is made up of 15 universities, the Open University in Scotland, an art school, a conservatoire, and Scotland's Rural College (SRUC). Students are 65% Scottish; 13% rest of the UK; 8% Europe and 13% from rest of the world. With 21% of students from outside the UK Scottish universities are internationally amongst the most internationalised. 162,000 students are undergraduates and one quarter 54,000 are postgraduates.

The economic benefit of attracting international students to Scotland is well documented at an estimated £337 million every year in fees and an estimated £441 million in off-campus expenditure.

Universities Scotland's Director, Alastair Sim says:
"Everyone in Scotland can celebrate the fact that we have more universities in the world's top 200 per head of population than any other nation, making us one of the strongest higher education systems in the world. Every Scottish institution is engaged in world leading research, uses innovative learning and teaching methods, and looks to make a strong contribution locally, nationally and internationally. The continued success of our universities - in a fiercely competitive international higher education marketplace - is crucial to Scotland's success. Our universities make an important contribution to Scotland's economy by delivering significant returns on public investment, attracting international students and inward investment, creating and supporting Scottish businesses and jobs, and producing highly-skilled graduates with the best employment prospects in the UK. This is a contribution that has to be protected and grown"

The University of the Highlands and Islands is a tertiary university composed of Academic Partners which are the 13 colleges and research institutions in the Highlands and Islands of Scotland delivering higher education. Its executive office is in Inverness, and a new campus has been opened on the edge of the city.

The University of the Highlands and Islands has a number of undergraduate, postgraduate and research programmes, most of which can be studied at a range of locations across the area. There are 8,415 students who are on undergraduate and postgraduate courses and 33,000 further education students. There are 70 learning centres spread around the Highlands and Islands, Moray and Perthshire.

Dounreay Site Restoration Ltd (DSRL) is funded by the Nuclear Decommissioning Authority to deliver the Dounreay site closure programme. The aim is to become the benchmark in Europe for successful decommissioning of a complex nuclear site. The company employs approximately 800 people (2013), with a similar number working for other companies on site closure sub-contracts.

"Global Energy is not only a leading oil and gas service company but with this experience and our fabrication facilities at Nigg we have a real opportunity to play a leading role in both renewables and the wider energy sector. With over 4000 contractors throughout the world it is vital that we have access to the main international hubs around the globe and that investors can easily access our facilities here."

Alastair Kennedy, Global Energy Group Inverness

Further evidence of our central thesis is provided by comments sourced from an Inverness passenger survey in 2014 below and from an SCDI survey in 2011.

Inverness Airport:
Survey of Business Air Travel Needs April 2013

"There is strong demand for an Inverness-Heathrow service. The core requirement is a double daily service arriving at Heathrow before 0900 and after 1700. However, some existing users of Aberdeen-Heathrow would require a higher frequency if they are to switch their flights to Inverness."

"Gatwick connections work reasonably well for some European destinations. However, for others Inner Moray Firth companies travel from Gatwick to Heathrow and then fly on to their European destination. One of the effects of these issues is to suppress inbound trips by European business visitors. The consequent reduction in business contact means that some companies feel that they face a competitive disadvantage."

"In many cases Inner Moray Firth companies have to stay overnight away from home before leaving the UK on an intercontinental trip. However, routings are chosen to minimise the number of overnight stays, the number of legs flown and travel or waiting time during working hours. Value is placed on through ticketing/code-share in case of delays."

"The total travel time required by inbound business visitors to reach the region is an issue. As a result, a number of companies have to travel to elsewhere in Scotland or the UK to meet up with inbound customers and suppliers from outside the UK."